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SUBJECT: TURKEY: EMBASSY SUPPORT OF GE REQUEST FOR NUCLEAR
TENDER DELAY

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11. (SBU) Summary. General Electric (GE) Turkey Managing Director Kursat Ozkan informed us September 4 that GE sent a formal request to GOT to postpone the deadline for bids for Turkey's first civilian nuclear power plant from September 24, 2008 to March 1, 2009 due to lack of project risk information to make a timely bid. On September 18, Ambassador Wilson sent a letter to Prime Minister Erdogan supporting GE's request for a postponement in the tender. According to Ozkan, four of the potential six bidders asked for a delay but Energy Minister Guler emphatically ruled out any delay in a meeting with bidders on August 26 and Prime Minister Erdogan said September 22 that the tender would not be delayed. The Energy Ministry strongly believes they will have bidders on September 24 and, if not, the GOT is allowed under the Nuclear Power law to invest in the nuclear plant itself, perhaps as part of a yet-to-be-structured public-private partnership or even via new, wholly state-owned company. End summary.

GE and the competition

12. (SBU) Managing Director of General Electric (GE) Turkey Kursat Ozkan told us their subsidiary GE Hitachi (GEH), a joint venture 60% GE and 40% Hitachi, is the primary technology and equipment supplier for the Sabanci/Iberdrola consortium which had planned to bid on Turkey's first nuclear tender. Sabanci will be the primary investor and Iberdrola will be the foreign investor and plant operator. GEH is not an equity stakeholder at this point. However, Ozkan hinted that at the request of consortium partners, GEH will likely take a small equity stake in the near future.

13. (SBU) Thirteen interested parties purchased the tender document specifications: AECL Atomic Energy (Canada), Itochu (Japan), Vinci Consortium (France), Suez-Tractebel (France-Belgium), Atomstroyexport (Russia), KEPCO (South Korea)-Enka Insaat (Turkey), China Nuclear Power, Unit Investment, RWE (Germany), Iberdrola (Spain)-Sabanci (Turkey), Alarko Holding (Turkey), Akenerji (Turkey) and Hattat Holding. Ozkan estimates there are six to seven consortia that are serious contenders for the bid, and four of them have asked the GOT to delay the bid date. GE believes two consortia are ready to bid now: KEPCO of South Korea, in partnership with the Turkish firm ENKA, and the Russian parastatal Atomstroyexport, possibly in conjunction

with the German company RWE.

GE,s concerns

14. (SBU) According to Ozkan, the driving factor behind GE,s request for a delay in the process is the lack of key information needed to calculate the project's risks, which will affect the cost of the project, financing and insurance.

Since the initial announcement of the tender in March, the Ministry of Energy has emphasized the primacy of price. The winning bidder will have the lowest cost of power generation per kilowatt hour. Insurance, financing and material costs are very important components of the price at which the winning consortium can generate electricity. Ozkan said GE could not turn in a competitive price with all the current unknowns.

15. (SBU) Specifically Ozkan cited the lack of a GOT legal regime regarding third party liability for nuclear accidents. (Note: Spanish Embassy commercial attach Carlos Ansele told us that Turkey has signed, but not ratified, the Paris Convention on nuclear liability, and that the Nuclear Power Law refers to the Paris Convention on issues of third party liability. End note.) Ozkan also bemoaned the lack of price escalation or indexing for construction and other commodities. Since the nuclear plant will be built 5 to 7 years in the future, material costs likely will increase. GE recommended the GOT use an indexing formula, which would increase transparency in the cost structure.

GOT sticks to the deadline

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16. (SBU) On August 26, Minister Guler met with potential bidders for the nuclear project and told them the GOT would not delay the tender. In a press conference following the meeting, Guler emphatically said Turkey is in desperate need of energy, so the project can not be delayed. Energy Ministry Deputy Directorate General for Energy Affairs Nilgun Acikalin told us the GOT is not sympathetic to companies' requests to delay. She argued companies have had plenty of time to prepare. Acikalin quickly dismissed Embassy officer's suggestion that a delay could benefit the GOT by bringing more bidders and hence stiffer price competition and more technologies to choose from into the process, Acikalin said she was sure some companies would bid and in the worse case scenario (no bidders), the GOT was ready to step in to form a public-private partnership to get the project done. (Comment: as reported reftel, the nuclear power law passed in November 2007 provides for the GOT to form either a public-private company, or even a wholly public company, to build a nuclear power plant. End comment.) Prime Minister Erdogan, in a September 22 press conference, closed the argument by announcing that there would be no delay in the September 24 bid deadline.

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